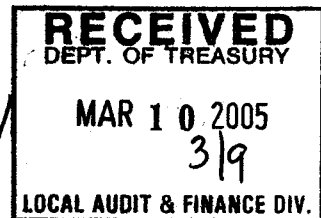


**VILLAGE OF FRANKLIN, MICHIGAN**

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63-3040



**Report on Audit of Accounts**

**June 30, 2004**

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**JANZ & KNIGHT**  
A PROFESSIONAL LIMITED LIABILITY COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS  
BLOOMFIELD HILLS, MICHIGAN

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

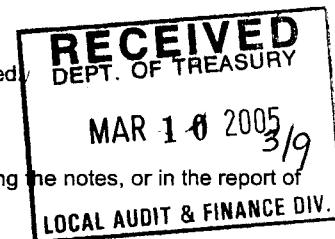
Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Franklin	County Oakland
Audit Date June 30, 2004	Opinion Date December 1, 2004	Date Accountant Report Submitted to State: February 15, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

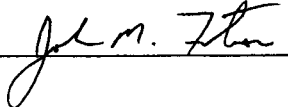


You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	x		
Reports on individual federal financial assistance programs (program audits).			x
Single Audit Reports (ASLGU).			x

Certified Public Accountant (Firm Name) Janz & Knight, PLC			
Street Address 300 East Long Lake Road, Suite 360	City Bloomfield Hills	State MI	ZIP 48304-2377
Accountant Signature 			Date 2/15/05

VILLAGE OF FRANKLIN, MICHIGAN

TABLE OF CONTENTS

	<u>Page</u>
Table of Contents .....	1
 <u>FINANCIAL SECTION</u> 	
Independent Auditor's Report .....	2
Management Discussion and Analysis .....	3
Basic Financial Statements:	
Government Wide Financial Statements For The Year Ended June 30, 2004:	
Statement of Net Assets .....	7
Statement of Activities .....	8
Fund Financial Statements For The Year Ended June 30, 2004:	
Balance Sheet - Governmental Funds .....	9
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities .....	10
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds .....	11
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	12
Statement of Net Assets - Proprietary Fund Type - Enterprise Fund .....	13
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund Type - Enterprise Fund .....	14
Statement of Cash Flows - Proprietary Fund Type - Enterprise Fund .....	15
Statement of Assets and Liabilities - Agency Funds .....	16
Notes to the Financial Statements .....	17
Required Supplemental Information:	
Budgetary Comparison Schedules:	
General Fund .....	34
Major Street Fund .....	37
Local Street Fund .....	38
Building Department Fund .....	39
Other Supplemental Information:	
Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet - Non-major Governmental Funds .....	40
Combining Balance Sheet - Non-major Governmental Funds - Special Revenue Funds .....	41
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-major Governmental Funds .....	42
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-major Governmental Funds - Special Revenue Funds .....	43

# JANZ & KNIGHT, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

300 EAST LONG LAKE ROAD, SUITE 360  
BLOOMFIELD HILLS, MICHIGAN 48304-2377

50  
YEARS  
1954-2004

FREDERICK C. JANZ  
ROBERT I. KNIGHT  
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JOHN M. FOSTER

JOHN W. MACKEY  
MICHAEL V. HIGGINS  
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## MEMBERS

AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

Members of the Council  
Village of Franklin, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Franklin, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Franklin, Michigan, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Franklin, Michigan, as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note B, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of June 30, 2004.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Franklin, Michigan basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Very truly yours,

*Janz & Knight, P.L.C.*

Certified Public Accountants

Bloomfield Hills, Michigan

December 22, 2004

# VILLAGE OF FRANKLIN, MICHIGAN

June 30, 2004

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Village of Franklin's (the Village) management's discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the Village's financial activity, identify changes in the Village's financial position (its ability to address the next and subsequent years' challenges), identify significant variances from the approved budget, and identify individual fund issues or concerns.

### Using this Annual Report

The Village's annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than government-wide financial statements.

### Government-Wide Financial Statements

The government-wide financial statements consist of the Statement of Net Assets and Statement of Activities. They are designed to be corporate-like in that all governmental and business-type funds are consolidated into columns which add to a total for the primary government. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are also taken into account regardless of timing of cash being paid or received.

### The Village as a Whole

Net Assets - The Village's combined net assets were \$8,245,448 at the close of the year ended June 30, 2004. This represents an increase of \$590,477 or a 8% increase from a year ago. As we look at governmental activities separately from the business-type activities, we can see that the governmental activities net assets decreased \$64,276. This decrease was primarily the result of depreciation of governmental assets. The business-type activity had an increase of \$654,753 in net assets. A large part of this increase was from sewer capital charges for sewer construction. The revenue from these assessments are recognized in the current year but the cost will be spread over the life of the sewer system as depreciation.

Since this is the first year the Village has presented government-wide financial statements, comparisons to the prior year have not been presented. In future years, when prior year information is available, a comparative analysis of government-wide data will be included.

The following table reflects the condensed Statement of Net Assets for the year ended June 30, 2004:

Table 1  
Statement of Net Assets

	Governmental Activities	Business-Type Activity	Total
<b>ASSETS</b>			
Current and other assets	\$ 1,662,487	\$ 3,460,826	\$ 5,123,313
Capital assets	6,997,835	7,376,805	14,374,640
Total assets	\$ 8,660,322	\$ 10,837,631	\$19,497,953
<b>LIABILITIES AND NET ASSETS</b>			
Current and other liabilities	\$ 480,435	\$ 388,457	\$ 868,892
Long term debt outstanding	5,390,000	4,993,613	10,383,613
Total liabilities	\$ 5,870,435	\$ 5,382,070	\$11,252,505
Net assets:			
Invested in capital assets, net of related debt	1,402,836	2,030,737	3,433,573
Restricted	828,716	187,171	1,015,887
Unrestricted	558,335	3,237,654	3,795,989
Total net assets	\$ 2,789,887	\$ 5,455,561	\$ 8,245,448
Total liabilities and net assets	\$ 8,660,322	\$ 10,837,631	\$19,497,953

VILLAGE OF FRANKLIN, MICHIGAN

June 30, 2004

Unrestricted net assets are net assets that can be used to finance day to day operations. Restricted net assets of the Village totaled approximately \$1,015,000. These net assets have limitations on their use that were imposed by restrictions such as enabling legislation, grant or bond covenants. The investment in capital assets represents the Village's capital assets that provide services to citizens; accordingly, these assets are not available for future spending.

The following table shows the changes in net assets for the year ended June 30, 2004:

Table 2  
Changes in Net Assets

	Governmental Activities	Business-Type Activity	Total
Program Revenue:			
Charges for services	\$ 1,000,929	\$ 297,502	\$ 1,298,431
Operating grants and contributions	261,682		261,682
Capital grants and contributions		433,456	433,456
General Revenue:			
Property taxes	1,693,432	545,403	2,238,835
State shared revenue	221,284		221,284
Interest income	17,078	81,514	98,592
Franchise fees	49,825		49,825
Miscellaneous	12,397		12,397
Sale of fixed assets	(1,981)		(1,981)
Total revenue	\$ 3,254,646	\$ 1,357,875	\$ 4,612,521
Program Expenses:			
General government	476,672		476,672
Public safety	1,776,758		1,776,758
Public works	647,914		647,914
Community and economic development	31,930		31,930
Recreation and culture	121,869		121,869
Interest on long term debt	263,778		263,778
Sewer		703,122	703,122
Total program expenses	\$ 3,318,921	\$ 703,122	\$ 4,022,043
Increase (decrease) in net assets	\$ (64,276)	\$ 654,753	\$ 590,477
Net assets - July 1, 2003	2,854,163	4,800,808	7,654,971
Net assets - June 30, 2004	\$ 2,789,888	\$ 5,455,561	\$ 8,245,448

As shown in the above table total revenues were approximately \$4.6 million, of which 48% was obtained from property taxes, 28% for fees charged for services and 5% for state shared revenues. Total expenses were approximately \$4.0 million, of which 44% was for public safety, 16% for public works and 18% for sewer.

Business Type Activities

The Village's business-type activities consists of the Pressure Sewer Fund. The Village provides sewer service to approximately 600 customers. During the year the Village constructed Sewer improvements of \$326,902.

The Village Funds

The analysis of the Village's major funds begins on page 9, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds for 2004 include the General Fund, Major Road Fund, Local Road Fund, Building Department and the Debt Service Fund.

The General Fund is the main operating fund of the Village. Total revenues for the year were approximately \$1,630,000. Of this revenue, 44% was from property taxes, 37% was from charges for services and 14% was from state shared revenues. Total expenditures for the year were approximately \$1,637,000. Of these expenditures, 68% was for public safety and 28% was for general government. At June 30, 2004 the unreserved fund balance of \$530,980 represented 32% of the total General Fund expenditures for the year.

The Major Road Fund accounts for the repairs, maintenance and construction of all Village major streets. The fund balance of this fund at June 30, 2004 was \$347,404.

VILLAGE OF FRANKLIN, MICHIGAN

June 30, 2004

The Village Funds (continued)

The Local Road Fund accounts for repairs, maintenance and construction of all Village local streets. The fund balance of this fund at June 30, 2004 was \$305,494.

The Building Department Fund accounts for the collection of building permits and fees and cost of inspections. The fund balance of this fund at June 30, 2004 was \$68,184.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. The fund balance of this fund at June 30, 2004 was \$134,493.

General Fund Budgetary Highlights

Over the course of the year, the Village Council amended the budget to take into account events during the year. State revenue sharing was amended to reflect reduced distributions from the State of Michigan. Cable T.V. revenue and expenditures were amended to reflect projected increases. Interest income was reduced to reflect lower interest rates. Charges for services were amended to reflect additional administration charges. Village Council expenditures were amended to reflect wireless communications costs and water and historical committee studies. Police Department expenditures were amended to reflect additional payroll related costs, police vehicle expenses and repairs and maintenance. Planning and capital outlay were amended to reflect lower expenditures.

Village departments overall stayed below budget, resulting in total expenditures \$27,785 below budget. In addition, actual revenue exceeded budgeted amounts by \$9,970.

Capital Asset and Debt Administration

At the end of June 30, 2004, the Village had \$14,374,640 invested in a broad range of capital assets (net of accumulated depreciation), including buildings, equipment, roads, and sewer lines.

Major expenditures for capital asset during the year included the following:

1. Sewer System improvements - \$326,902;
2. Police vehicle - \$21,242;
3. Tornado siren system - \$6,621.

Long-Term Debt

The Village's total indebtedness at June 30, 2004 was \$10,941,068. No new debt was issued during the current fiscal year. The City maintains a "AA+" rating from Standard & Poor's. Additional information on the Village's long-term debt can be found in Note G.

Economic Factors and Next Year's Budgets and Rates

The Village's 2005 budget was prepared using various economic factors as follows:

Revenues:

Property tax rates for 2005 are as follows:

	2005 Mills Levied	2004 Mills Levied
Operations:		
General operations	2.8000	2.8468
Library	.5000	.5000
Fire	.9866	.9498
Rubbish	.7100	.7286
	4.9966	5.0252
Debt service:		
Road and drain	1.5276	1.5798
Pressure sewer	2.1414	2.2327
Police	.2402	.2605
	3.9092	4.0730
Total	8.9058	9.0982

VILLAGE OF FRANKLIN, MICHIGAN

June 30, 2004

Revenues (continued)

Property tax revenues are expected to increase slightly. This is the result of new construction within the Village. Other general revenues expected to increase include police protection services, police fines and interest income. State revenue sharing is expected to reflect a reduction (when compared to historical levels).

Expenditures

Payroll expenses are expected to increase to reflect approved wage increases and additional employees added. Employee benefits (health insurance and retirement contributions) are expected to increase to reflect premium increases.

The 2005 General Fund budget expects a surplus of approximately \$38,300. The projected General Fund's fund balance at June 30, 2005 is approximately \$622,300 which represents approximated 45% of the General Fund expenditures for the year.

Request for Information

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have any questions or concerns about this report or need additional information, contact the Village Office, at the Village of Franklin, 32325 Franklin, Franklin, Michigan 48025-1199.

JANE F. KNIGHT, CLU, CFP® - CERTIFIED PUBLIC ACCOUNTANT



## VILLAGE OF FRANKLIN, MICHIGAN

## STATEMENT OF NET ASSETS

JUNE 30, 2004

	Governmental Activities	Business-type Activity	Total
<b>ASSETS</b>			
Cash and cash equivalents. . . . .	\$ 1,541,252	\$ 2,252,665	\$ 3,793,917
Receivables:			
Customers. . . . .		125,263	125,263
Special assessments. . . . .		874,632	874,632
Interest. . . . .		44,000	44,000
Other. . . . .	30,977	1,046	32,023
Agency funds. . . . .	11,496		11,496
Due from other governments. . . . .	25,763	163,219	188,983
Prepaid expenses. . . . .	9,257		9,257
Restricted assets - cash and cash equivalents. . . . .	43,741		43,741
Capital assets, net. . . . .	6,997,835	7,376,805	14,374,640
<b>Total assets. . . . .</b>	<b>\$ 8,660,322</b>	<b>\$ 10,837,631</b>	<b>\$ 19,497,953</b>
<b>LIABILITIES AND NET ASSETS</b>			
Liabilities:			
Accounts payable. . . . .	\$ 150,362	\$ 552	\$ 150,914
Accrued interest. . . . .	70,600	49,200	119,800
Due to other governments. . . . .	1,723		1,723
Internal balances. . . . .	13,750	(13,750)	
Noncurrent liabilities:			
Compensated absences. . . . .	39,000		39,000
Due within one year. . . . .	205,000	352,455	557,455
Due in more than one year. . . . .	5,390,000	4,993,613	10,383,613
<b>Total liabilities. . . . .</b>	<b>\$ 5,870,435</b>	<b>\$ 5,382,070</b>	<b>\$ 11,252,505</b>
Net assets:			
Invested in capital assets, net of related debt. . . . .	1,402,836	2,030,737	3,433,573
Restricted for:			
Major and local streets. . . . .	652,898		652,898
Debt service. . . . .	63,893		63,893
Police equipment. . . . .	43,741		43,741
Other. . . . .	68,184	187,171	255,355
Unrestricted. . . . .	558,335	3,237,654	3,795,989
<b>Total net assets. . . . .</b>	<b>\$ 2,789,887</b>	<b>\$ 5,455,561</b>	<b>\$ 8,245,448</b>
<b>Total liabilities and net assets. . . . .</b>	<b>\$ 8,660,322</b>	<b>\$ 10,837,631</b>	<b>\$ 19,497,953</b>

The attached notes are an integral part of the financial statements.

VILLAGE OF FRANKLIN, MICHIGAN

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government</b>				
Governmental activities:				
General government	\$ 476,672	\$	\$ 4,226	\$
Public safety	1,776,758	994,929	7,118	
Public works	647,914	6,000	250,338	
Community and economic development	31,930			
Recreation and culture	121,869			
Interest on long term debt	263,778			
Total governmental activities	\$ 3,318,921	\$ 1,000,929	\$ 261,682	\$
Business-type activity:				
Sewer	703,122	297,502		433,456
Total primary government	\$ 4,022,043	\$ 1,298,430	\$ 261,682	\$ 433,456

General revenues:

Property taxes

State shared revenues

Interest income

Franchise fees

Miscellaneous

Special item - sale of fixed assets

Total general revenues and special items

Changes in net assets

Net assets - July 1, 2003 (restated)

Net assets - June 30, 2004

The attached notes are an integral part of the financial statements.

Net (Expense) Revenue and  
Changes in Net Assets

Governmental Activities	Business-type Activity	Total
\$ (472,446)	\$	\$ (472,446)
(774,712)		(774,712)
(391,576)		(391,576)
(31,930)		(31,930)
(121,869)		(121,869)
(263,778)		(263,778)
\$ (2,056,310)	\$	\$ (2,056,310)
	27,836	27,836
\$ (2,056,310)	\$ 27,836	\$ (2,028,474)
1,693,432	545,403	2,238,835
221,284		221,284
17,078	81,514	98,592
49,825		49,825
12,397		12,397
(1,981)		(1,981)
\$ 1,992,035	\$ 626,917	\$ 2,618,951
\$ (64,276)	\$ 654,753	\$ 590,477
2,854,163	4,800,808	7,654,971
\$ 2,789,888	\$ 5,455,561	\$ 8,245,448

## VILLAGE OF FRANKLIN, MICHIGAN

BALANCE SHEET  
GOVERNMENTAL FUNDS

June 30, 2004

	General	Major Street	Local Street
<b>ASSETS</b>			
Cash and cash equivalents . . . . .	\$ 540,217	\$ 352,772	\$ 345,892
Receivables:			
Other . . . . .	13,600		3,050
Due from other funds . . . . .	14,328		2,776
Due from other governments . . . . .	7,264	11,106	7,394
Prepaid expenses . . . . .	9,257		
Restricted cash . . . . .	43,741		
Total assets . . . . .	<u>\$ 628,407</u>	<u>\$ 363,878</u>	<u>\$ 359,112</u>
<b>LIABILITIES AND FUND EQUITY</b>			
Liabilities:			
Accounts payable . . . . .	\$ 44,428	\$ 8,698	\$ 52,618
Due to other funds . . . . .		7,776	1,000
Due to other governments . . . . .			
Total liabilities . . . . .	<u>\$ 44,428</u>	<u>\$ 16,474</u>	<u>\$ 53,618</u>
Fund balances:			
Reserved for:			
Debt service . . . . .	52,998		
Other . . . . .			
Unreserved, reported in:	530,980		
General Fund . . . . .		347,404	305,494
Special Revenue Funds . . . . .			
Total fund balances . . . . .	<u>\$ 583,978</u>	<u>\$ 347,404</u>	<u>\$ 305,494</u>
Total liabilities and fund equity . . . . .	<u>\$ 628,407</u>	<u>\$ 363,878</u>	<u>\$ 359,112</u>

The attached notes are an integral part of the financial statements.

<u>Building Department</u>	<u>Debt Service</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 97,019	\$ 122,658	\$ 82,693	\$ 1,541,252
14,067		260	30,977
	11,835	1,723	30,662
			25,763
			9,257
			43,741
<u>\$ 111,087</u>	<u>\$ 134,493</u>	<u>\$ 84,676</u>	<u>\$ 1,681,653</u>
\$ 18,762	\$	\$ 25,855	\$ 150,362
24,140			32,916
		1,723	1,723
\$ 42,902	\$	\$ 27,578	\$ 185,001
	134,493		134,493
			52,998
			530,980
68,184		57,098	778,180
<u>\$ 68,184</u>	<u>\$ 134,493</u>	<u>\$ 57,098</u>	<u>\$ 1,496,652</u>
<u>\$ 111,087</u>	<u>\$ 134,493</u>	<u>\$ 84,676</u>	<u>\$ 1,681,653</u>

VILLAGE OF FRANKLIN, MICHIGAN

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2004

Total governmental fund balances. . . . . \$ 1,496,652

Amounts reported for governmental activities in the  
statement of net assets are different because:

Capital assets used in governmental activities are not financial  
resources, and are not reported in the governmental funds:

Governmental capital assets	\$7,749,435	
Less accumulated depreciation	(751,600)	6,997,835

Long-term liabilities, including compensated absences, are not  
due and payable in the current period and are not reported in  
the funds including related accrued interest. . . . . (5,704,600)

Net assets of governmental activities . . . . . \$ 2,789,887

The attached notes are an integral part of the financial statements.

VILLAGE OF FRANKLIN, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2004

	General	Major Street	Local Street
<b>Revenues:</b>			
Taxes . . . . .	\$ 718,823	\$	\$
Licenses and permits . . . . .	50,575		
Federal sources . . . . .	9,132		
State sources . . . . .	223,496	135,264	99,703
Local sources . . . . .			
Charges for services . . . . .	602,143		
Fines and forfeitures . . . . .	11,234		
Interest . . . . .	5,752	4,359	1,400
Other . . . . .	13,049	2,344	
Total revenues . . . . .	\$ 1,634,204	\$ 141,968	\$ 101,103
<b>Expenditures:</b>			
<b>Current:</b>			
General government . . . . .	467,215		
Public safety . . . . .	1,107,604		
Public works . . . . .		93,910	127,253
Community and economic development . . . . .	31,930		
Recreation and culture . . . . .			
Capital outlay . . . . .	30,487		
<b>Debt service:</b>			
Principal payments . . . . .			
Interest and service charges . . . . .			
Total expenditures . . . . .	\$ 1,637,236	\$ 93,910	\$ 127,253
Excess of revenues over (under) expenditures . . . . .	\$ (3,032)	\$ 48,058	\$ (26,149)
<b>Other financing sources (uses):</b>			
Operating transfers in . . . . .			83,816
Operating transfers out . . . . .		(83,816)	
Total other financing sources (uses) . . . . .	\$	\$ (83,816)	\$ 83,816
Excess of revenues and other sources over (under) expenditures and other uses . . . . .	\$ (3,032)	\$ (35,758)	\$ 57,667
Fund balance - July 1, 2003 . . . . .	587,010	383,162	247,827
Fund balance - June 30, 2004 . . . . .	\$ 583,978	\$ 347,404	\$ 305,494

The attached notes are an integral part of the financial statements.

Building Department	Debt Service	Non-Major Governmental Funds	Governmental Funds
\$ 386,801	\$ 444,937	\$ 529,672	\$ 1,693,432
			437,376
			9,132
			458,463
		15,371	15,371
			602,143
			11,234
	3,798	1,769	17,078
27		30	15,451
\$ 386,828	\$ 448,734	\$ 546,842	\$ 3,259,680
			467,215
381,138		232,153	1,720,895
		190,433	411,595
			31,930
		121,869	121,869
			30,487
	185,000		185,000
	265,878		265,878
\$ 381,138	\$ 450,878	\$ 544,455	\$ 3,234,869
\$ 5,690	\$ (2,144)	\$ 2,388	\$ 24,811
			83,816
			(83,816)
\$	\$	\$	\$
\$ 5,690	\$ (2,144)	\$ 2,388	\$ 24,811
62,494	136,637	54,710	1,471,840
\$ 68,184	\$ 134,493	\$ 57,098	\$ 1,496,651



VILLAGE OF FRANKLIN, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2004

Net change in fund balances - total governmental fund. . . . . \$ 24,811

Amounts reported for governments' activities in the  
statement of activities are different because:

Governmental funds report capital outlays as expenditures;  
in the statement of activities, these costs are allocated  
over their estimated useful lives as depreciation:

Expenditures for capital assets	\$27,863	
Less current year depreciation	(298,815)	(270,952)

Governmental funds report proceeds from sale; in the statement  
of activities, only the respective gain or loss is recognized. . . . (5,035)

Compensated absences are included as a liability in governmental  
activities . . . . . (200)

Repayment of bond principal is an expenditure in the governmental  
funds, but not in the statement of activities (where it reduces  
long-term debt). . . . . 185,000

Accrued interest is recorded in the statement of activities. . . . . 2,100

Change in net assets of governmental activities. . . . . \$ (64,276)

The attached notes are an integral part of the financial statements.

VILLAGE OF FRANKLIN, MICHIGAN

STATEMENT OF NET ASSETS  
 PROPRIETARY FUND TYPE - ENTERPRISE FUND

JUNE 30, 2004

	Business-type Activity Pressure Sewer Fund
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents . . . . .	\$ 2,252,665
Receivables:	
Customers . . . . .	125,263
Special assessments . . . . .	874,632
Interest . . . . .	44,000
Others . . . . .	1,046
Due from other funds . . . . .	13,750
Due from other governments . . . . .	163,219
Total current assets . . . . .	\$ 3,474,576
Noncurrent assets:	
Capital assets, net . . . . .	7,376,805
Total assets . . . . .	<u>\$ 10,851,381</u>

<b>LIABILITIES AND NET ASSETS</b>	
Current liabilities:	
Accounts payable and other liabilities . . . . .	\$ 552
Accrued interest . . . . .	49,200
Current portion of long term debt . . . . .	352,455
Total current liabilities . . . . .	\$ 402,207
Noncurrent liabilities:	
Bond payable . . . . .	4,993,613
Total liabilities . . . . .	\$ 5,395,820
Net assets:	
Invested in capital assets, net of related debt . . . . .	2,030,737
Restricted for:	
Improvements . . . . .	152,781
Operations . . . . .	34,390
Unrestricted . . . . .	3,237,654
Total net assets . . . . .	<u>\$ 5,455,561</u>
Total liabilities and net assets . . . . .	<u>\$ 10,851,381</u>

The attached notes are an integral part of the financial statements.

VILLAGE OF FRANKLIN, MICHIGAN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 PROPRIETARY FUND TYPE - ENTERPRISE FUND

For the Year Ended June 30, 2004

	Business-type Activity Pressure Sewer Fund
Operating revenue:	
Sewage disposal charges . . . . .	\$ 289,797
Penalties . . . . .	6,449
Miscellaneous . . . . .	1,255
Total operating revenue . . . . .	\$ 297,502
Operating expenses:	
Cost of sewage treatment . . . . .	163,912
Inspection costs . . . . .	2,108
General and administrative expense . . . . .	22,030
System maintenance . . . . .	45,988
Pump station maintenance . . . . .	60,936
Depreciation . . . . .	182,316
Professional fees . . . . .	2,221
Miscellaneous . . . . .	1,164
Total operating expenses . . . . .	\$ 480,675
Operating income (loss) . . . . .	\$ (183,173)
Nonoperating revenues (expenses):	
Property taxes . . . . .	545,403
Capital charges . . . . .	398,570
Interest income . . . . .	81,514
Reserve for improvements . . . . .	34,886
Interest expense . . . . .	(215,804)
Reserve for operations . . . . .	(6,643)
Total nonoperating revenues (expenses) . . . . .	\$ 837,926
Change in net assets . . . . .	\$ 654,753
Net assets - July 1, 2003 (restated) . . . . .	4,800,808
Net assets - June 30, 2004 . . . . .	\$ 5,455,561

The attached notes are an integral part of the financial statements.

VILLAGE OF FRANKLIN, MICHIGAN

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND TYPE - ENTERPRISE FUND

JUNE 30, 2004

	Business-type Activity Pressure Sewer Fund
Cash flows from operating activities:	
Receipts from customers . . . . .	\$ 312,625
Payments to suppliers . . . . .	(343,175)
Net cash provided (used) by operating activities. . . . .	\$ (30,550)
Cash flows from capital and related financing activities:	
Collection of customer assessments. . . . .	\$ 516,462
Collection of property taxes. . . . .	545,403
Reserve for improvements. . . . .	26,346
Purchase of property and equipment. . . . .	(302,352)
Principal paid on capital debt. . . . .	(322,099)
Interest paid on capital debt . . . . .	(223,304)
Reserve for operations. . . . .	(6,643)
Net cash provided (used) by capital and related financing activities	\$ 233,813
Cash flows from investing activities:	
Interest income . . . . .	70,541
Net increase (decrease) in cash and cash equivalents. . . . .	\$ 273,804
Cash and cash equivalents - July 1, 2003 . . . . .	1,978,861
Cash and cash equivalents - June 30, 2004. . . . .	\$ 2,252,665
Reconciliation of operating income (loss) to net cash provide (used) by operating activities:	
Operating income (loss) . . . . .	\$ (183,173)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Depreciation and amortization . . . . .	182,316
Changes in assets and liabilities:	
(Increase) decrease in receivables. . . . .	15,123
(Increase) decrease in due from other funds . . . . .	(44,895)
Increase (decrease) in accounts payable and other liabilities . . . . .	79
Net cash provided (used) by operating activities. . . . .	\$ (30,550)

The attached notes are an integral part of the financial statements.

VILLAGE OF FRANKLIN, MICHIGAN

STATEMENT OF ASSETS AND LIABILITIES  
FIDUCIARY FUNDS

June 30, 2004

	Trust & Agency Fund	Tax Collection Fund	Total Fiduciary Funds
<b>ASSETS</b>			
Cash and cash equivalents . . . . .	\$ 259,854	\$ 13,581	\$ 273,435
Due from other funds . . . . .	4,000		4,000
Total assets . . . . .	<u>\$ 263,854</u>	<u>\$ 13,581</u>	<u>\$ 277,435</u>
<b>LIABILITIES</b>			
Due to other funds . . . . .	\$ 1,914	\$ 13,581	\$ 15,496
Deposits payable . . . . .	261,940		261,940
Total liabilities . . . . .	<u>\$ 263,854</u>	<u>\$ 13,581</u>	<u>\$ 277,435</u>

The attached notes are an integral part of the financial statements.

June 30, 2004

NOTE A - Summary of Significant Accounting Policies

The accounting policies of the Village of Franklin (the "Village") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Franklin.

Reporting Entity

The Village of Franklin is governed by an elected seven-member Council. The accompanying financial statements present the Village and its component units, entities for which the Village is considered to be financially accountable.

Government-Wide and Fund Financial Statements

During the year the Village adopted Governmental Accounting Standards Board (GASB) Statement No. 34, which substantially revised the financial statement presentation as described below.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual--that is, when they become both measurable and available to finance expenditures of the period. Property taxes, state-shared revenue, interest, reimbursement grants, and charges for services are considered to be susceptible to accrual and so have been recognized as revenue of the current period. All other revenue items are considered to be available only when cash is received by the government.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

VILLAGE OF FRANKLIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE A - Summary of Significant Accounting Policies (continued)

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Governmental Funds:

The Village reports the following major governmental funds:

General Fund

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be account for in another fund.

Major Road Fund

The Major Road Fund accounts for the construction, maintenance, and repairs of all streets classified as "major roads" within the Village. Financing is provided primarily by State-shared gas and weight taxes and local contributions. The fund is operated under the provisions of Michigan's Act 51 of the Public Acts of 1951, as amended.

Local Road Fund

The Local Road Fund accounts for the construction, maintenance, and repairs of all streets classified as "local roads" within the Village. Financing is provided primarily by State-shared gas and weight taxes and local contributions. The fund is operated under the provisions of Michigan's Act 51 of the Public Acts of 1951, as amended.

Building Department Fund

The Building Department Fund is a special revenue fund used to account for the collection of building permits and fees and costs of inspections.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of financial resources for the payment of principal and interest on the Village's general obligation debt. The Village annually levies ad valorem taxes restricted for the retirement of general obligation bonds. This fund reports all ad valorem taxes collected.

Additionally, the City reports the following fund types:

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Propriety Fund

The Village reports the following major proprietary fund:

Pressure Sewer Fund

The Pressure Sewer Fund accounts for the operation, maintenance and distribution of the sewage systems administered by Oakland County.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Pressure Sewer Fund relates to charges to customers for sales and services. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

VILLAGE OF FRANKLIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE A - Summary of Significant Accounting Policies (continued)

Fiduciary Funds

Agency Funds

Agency Funds are used to account for assets held by the Village as an agent for individuals, private organizations, other governments and/or other funds. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Property Taxes

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 1, at which time penalties and interest are assessed.

The 2003 taxable valuation of the Village, assessed as of December 31, 2002, totaled \$243,147,440, and is used for the July 1, 2003 tax bills; this resulted in property tax revenue as follows:

<u>Operations</u>	<u>Mills Levied</u>	<u>Property Taxes</u>
General operations	2.8468	\$692,192
Library	.5000	121,573
Fire	.9498	230,941
Rubbish	.7286	177,157
<u>Debt Service</u>		
Road and drain	1.5798	384,124
Pressure sewer	2.2327	542,875
Police	.2605	63,340

Assets, Liabilities, and Net Assets or Equity

Cash and Investments

Deposits are carried at cost and consist of cash on hand, checking accounts, and investments in mutual funds.

For purposes of the Statement of Cash Flows, the Village considered cash deposits and certificates of deposits with a maturity of three months or less when purchased to be cash equivalents.

Interfund Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds" on the balance sheet. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

Receivables

All trade and property tax receivables are considered fully collectible by the Village. No provision has been made in the financial statements for noncollection.

Prepaid Items

Certain payments to vendors reflect costs applicable to future years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain revenues of the enterprise funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and improvements and replacement of the water system. These amounts have been classified as restricted assets.



VILLAGE OF FRANKLIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE A - Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets, which include land, buildings, building improvements, vehicles, furniture, machinery and equipment and infrastructure are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Infrastructure assets are long-lived capital assets that normally can be preserved for a significantly greater number of year than most capital assets.

Capital assets that are being depreciated are reported net of accumulated depreciation in the statement of net assets. Capital assets that are not being depreciated, such as land, are reported separately.

Capital assets are depreciated over their estimated useful lives. Depreciation expense is reported in the statement of activities by allocating the net cost over the estimated useful life of the assets.

Depreciation of all exhaustible fixed assets used by propriety fund types is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund type balance sheets. Depreciation has been provided over the estimated useful lives.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Land Improvements	10
Sewer System	50
Buildings and Improvements	10-50
Vehicles	6
Machinery and Equipment, Furniture	5-20
Roads	25
Storm Drainage	40

Compensated Absences (Sick and Vacation Leave)

Sick pay earned are recognized in the governmental financial statements when they are paid. The long-term portion of compensated absences related to governmental funds is a liability recorded in the Statement of Net Assets.

Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Statement of Net Assets. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and net of any deferred charges on bond refundings. Issuance costs are reported as deferred charges.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance present tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

VILLAGE OF FRANKLIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE B - Accounting and Reporting Changes

GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*. The Village of Franklin has applied the provisions of this statement in the accompanying financial statements (including the notes to financial statements). The Village has elected to implement the general provisions of the statement in the current year, but did not elect to retroactively report infrastructure. Certain significant changes in the statement include the following:

1. A management's discussion and analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations.
2. Financial statements prepared using full accrual accounting for all of the Village's activities.
3. A change in the fund financial statements to focus on the major funds.
4. Capital assets at July 1, 2003 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$12,624,594 to reflect the historical cost of the Village's capital assets at that date.
5. The governmental activities column includes bonds and other long-term obligations totaling \$5,634,000 previously reported in the General Long-Term Debt Account Group.
6. According to GASB 34 it is necessary to review current fund types to new fund types. It was determined that sewer debt service activity previously accounted for in the Debt Service Fund should be reported in the Pressure Sewer Fund. It was also determined that the Pressure Sewer Fund be converted from a capital projects fund to an enterprise fund. Net assets of the Pressure Sewer Fund at the beginning of the year were restated by approximately \$2,649,000.

NOTE C - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General and Special Revenue Funds. All annual appropriations lapse at year end. The Village's appropriation resolution is generally passed during the May preceding the year in which the planned expenditures relate. Subsequent amendments are made to avoid unfavorable variances from the original budget. Related resolutions are made to state the purpose and amount of the changes. The Village Clerk has the responsibility to enforce the budget. Unused appropriations do not carry forward to the next year.

The budget document presents information by fund, function, department and line items. The legal level (the level at which expenditures may not legally exceed appropriations) of budgetary control adopted by the board is at the department (activity) level.

The Village Council must approve budget amendments at the activity level and supplemental appropriations, which affect total fund expenditures. The Clerk can transfer appropriations between line items within a department or activity without governing body approval.

Supplemental appropriations were necessary during the year, which increased total expenditures.

Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

P.A. 2 of 1968 as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated in budget resolutions of the governing body.

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the Village of Franklin did not incur expenditures in certain budgeted funds which were significantly in excess of the amounts appropriated.

VILLAGE OF FRANKLIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE D - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village has designated various banks for the deposit of Village funds. The treasurer keeps a list of approved banks. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and CDs, repurchase agreements, investment pools organized under the local government investment pool act, commercial paper rated within the two highest classifications, and bankers' acceptance of United States banks, but not the remainder of State statutory authority as listed above.

The Village of Franklin's deposits and investment policy are in accordance with statutory authority and the investment policy of the Village. At the end of the year, the carrying amount of the Village's deposits were \$439,335 (reconciled), the unreconciled bank balance was \$414,145, of the deposits \$100,000 was covered by federal depository insurance. Cash deposits are not collateralized.

The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution with which it deposits Village funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

During the period of tax collection (July-February), cash deposits held by the Village may significantly exceed the amounts as of the balance sheet date.

At year-end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and cash equivalents	\$ 1,541,252	\$ 2,252,665	\$ 273,435	\$ 4,067,352
Restricted assets	<u>43,741</u>			<u>43,741</u>
	<u>\$ 1,584,993</u>	<u>\$ 2,252,665</u>	<u>\$ 273,435</u>	<u>\$ 4,111,093</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 439,335
Investments in Securities, Mutual Funds and Similar Vehicles	3,671,665
Petty Cash and Cash on Hand	<u>93</u>
Total	<u>\$ 4,111,093</u>

The Village's investments are categorized to give an indication of the level of risk assumed by the Village at year end. Investments are categorized into these categories of credit risk:

1. Insured or registered, or securities held by the Village or its agent in the Village's name;
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Village's name; and
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department of agent but not in the Village's name.

VILLAGE OF FRANKLIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE D - Deposits and Investments (continued)

At year-end, the government's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary Government:				
U.S. Government Securities	\$	\$	\$	\$
Commercial Paper				
Repurchase Agreements				
Subtotal	\$	\$	\$	\$
Investment Not Subject to Categorization:				
Mutual Funds - Governmental Cash Investment Fund				<u>3,671,655</u>
Total Primary Government				<u>\$ 3,671,655</u>

The mutual funds are not categorized because they are not evidenced by securities that are in physical or book entry form. Management believes that the investments of the Village comply with the investment authority as noted above, and the investment policy of the Village.

Restrictions

Reflected on the balance sheet are restricted cash and cash equivalents detailed as follows:

<u>General Fund</u>	
Cash and cash equivalents:	
Deposits	\$25,000
Investments	<u>18,741</u>
	<u>\$43,741</u>

The assets of the General Fund are restricted for police supplies and equipment acquisitions.

VILLAGE OF FRANKLIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE E - Capital Assets

Capital asset activity of the primary government for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 211,717	\$	\$	\$ 211,717
Capital assets being depreciated:				
Roads	5,534,493			5,534,493
Storm drainage	597,552			597,552
Building and improvements	942,922			942,922
Land improvements	26,937			26,937
Machinery and equipment	175,076	6,621		181,697
Furniture and fixtures	122,841			122,841
Vehicles	130,173	21,242	20,140	131,275
Subtotal	\$ 7,529,994	\$ 27,863	\$ 20,140	\$ 7,537,717
Less accumulated depreciation for:				
Roads	\$ 170,320	\$ 221,380	\$	\$ 391,700
Storm drainage	35,853	14,939		50,792
Building and improvements	30,267	20,280		50,547
Land improvements	4,561	2,694		7,255
Machinery and equipment	118,399	9,780		128,179
Furniture and fixtures	42,264	10,047		52,311
Vehicles	66,225	19,695	15,105	70,815
Subtotal	\$ 467,889	\$ 298,815	\$ 15,105	\$ 751,599
Net capital assets being depreciated	\$ 7,062,105	\$ (270,952)	\$ 5,035	\$ 6,786,118
Net capital assets	\$ 7,273,822	\$ (270,952)	\$ 5,035	\$ 6,997,835
Business-type activities:				
Capital assets being depreciated:				
Sewer system	\$ 8,512,578	\$ 326,902	\$	\$ 8,839,480
Less accumulated depreciation for:				
Sewer system	1,280,359	182,316		1,462,675
Net capital assets	\$ 7,232,219	\$ 144,586	\$	\$ 7,376,805

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 9,457
Public safety	53,039
Public works	236,319
Total governmental activities	\$298,815
Business-type activities:	
Water and sewer	\$182,316

VILLAGE OF FRANKLIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE F - Interfund Receivables, Payables and Transfers

The following are the interfund receivables at June 30, 2004:

<u>Receivable Fund</u>	<u>Payable</u>	<u>Amount</u>
General Fund	Trust and Agency Fund	\$ 1,914
	Local Street Fund	1,000
	Major Street Fund	5,000
	Building Department Fund	6,390
	Tax Collection Fund	<u>24</u>
	Total General Fund	\$14,328
Special Revenue Funds:		
Local Street Fund	Major Street Fund	2,776
Fire Fund	Tax Collection Fund	1,138
Library Fund	Tax Collection Fund	<u>585</u>
	Total Special Revenue Funds	\$ 4,499
Debt Service Fund	Tax Collection Fund	11,835
Enterprise Fund	Building Department Fund	13,750
Agency Fund:		
Trust and Agency Fund	Building Department Fund	<u>4,000</u>
	Total interfund receivable	<u>\$48,412</u>

These balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

	<u>Major Street Fund</u>
Transfer In	
Local Street Fund	<u>\$83,816</u>

Transfers from the Major Road Fund to the Local Road Fund is allowable under Act 51.

NOTE G - Long-Term Debt

The following is a summary of general long-term debt of the Village for the year ended June 30, 2004:

	<u>General Obligation</u>	<u>Compensated Absences</u>	<u>Total</u>
Balance at July 1, 2003	\$ 5,780,000	\$ 38,800	\$5,818,800
Principal retirements	(185,000)		(185,000)
Increase in obligation for compensate absences		200	200
Balance at June 30, 2004	<u>\$ 5,595,000</u>	<u>\$ 39,000</u>	<u>\$5,634,000</u>

The following is a summary of long-term debt transactions of the Village's Enterprise Fund for the year ended June 30, 2004:

	<u>General Obligation Bonds</u>
Balance at July 1, 2003	\$5,668,166
Principal retirement	<u>(322,099)</u>
Balance at June 30, 2004	<u>\$5,346,067</u>

## VILLAGE OF FRANKLIN, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE G - Long-Term Debt (continued):General Long-Term Debt - Bonds Payable:

On September 8, 1999 bonds in the amount of \$1,600,000 were sold for road and drainage improvements. The proceeds received from the sale of these bonds amounted to \$1,584,012. These bonds are part of the voter approved authorization for road and drainage improvements. Schedule of principal and interest payments is as follows:

Year	Due September 1			Due
	Principal	Interest	Total	March 1 Interest
2004	\$ 75,000	\$ 33,734	\$ 108,734	\$
2005	85,000	32,028	117,028	32,028
2006	95,000	30,051	125,051	30,051
2007	100,000	27,795	127,795	27,795
2008	110,000	25,295	135,295	25,295
2009	120,000	22,545	142,545	22,545
2010	130,000	19,545	149,545	19,545
2011	140,000	16,295	156,295	16,295
2012	155,000	12,795	167,795	12,795
2013	165,000	8,842	173,842	8,842
2014	180,000	4,635	184,635	4,635
	<u>\$1,355,000</u>	<u>\$ 233,560</u>	<u>\$1,588,560</u>	<u>\$ 199,826</u>

The bonds bear interest at a rate of 4.2% to 5.1%.

On November 20, 1999 bonds in the amount of \$850,000 were sold for the construction of a police station. The proceeds received from the sale of these bonds amounted to \$839,375. These bonds are part of the voter approved authorization for police station construction. Schedule of principal and interest payments is as follows:

Year	Due October 1			Due
	Principal	Interest	Total	April 1 Interest
2004	\$ 20,000	\$ 21,569	\$ 41,569	\$
2005	25,000	21,069	46,069	21,069
2006	25,000	20,444	45,444	20,444
2007	30,000	19,819	49,819	19,819
2008	30,000	19,031	49,031	19,031
2009	35,000	18,244	53,244	18,244
2010	40,000	17,325	57,325	17,325
2011	45,000	16,275	61,275	16,275
2012	45,000	15,082	60,082	15,082
2013	50,000	13,867	63,867	13,867
2014	55,000	12,492	67,492	12,492
2015	65,000	10,966	75,966	10,966
2016	70,000	9,146	79,146	9,146
2017	75,000	7,169	82,169	7,169
2018	85,000	5,031	90,031	5,031
2019	90,000	2,587	92,587	2,587
	<u>\$ 785,000</u>	<u>\$ 230,116</u>	<u>\$1,015,116</u>	<u>\$ 208,547</u>

The bonds bear interest at a rate of 5.0% to 5.75%.

## VILLAGE OF FRANKLIN, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

## NOTE G - Long-Term Debt (continued):

General Long-Term Debt - Bonds Payable (continued):

On April 11, 2001 bonds in the amount of \$2,000,000 were sold for local road improvements. The proceeds received from the sale of these bonds amounted to \$1,975,009. These bonds are part of the voter approved authorization for local road improvements. Schedule of principal and interest payments is as follows:

Year	Due October 1		Total	Due
	Principal	Interest		April 1 Interest
2004	\$ 55,000	\$ 39,123	\$ 94,123	\$
2005	70,000	37,954	107,954	37,954
2006	75,000	36,466	111,466	36,466
2007	95,000	34,873	129,873	34,873
2008	110,000	32,830	142,830	32,830
2009	125,000	30,465	155,465	30,465
2010	150,000	27,778	177,778	27,778
2011	175,000	24,553	199,553	24,553
2012	195,000	20,790	215,790	20,790
2013	225,000	16,500	241,500	16,500
2014	250,000	11,550	261,550	11,550
2015	275,000	6,050	281,050	6,050

\$1,800,000   \$ 318,932   \$2,118,932   \$ 279,809

The bonds bear interest at a rate of 4.25% to 4.40%.

On May 29, 2002 bonds in the amount of \$1,700,000 were sold for local road improvements. The proceeds received from the sale of these bonds amounted to \$1,678,750. These bonds are part of the voter approved authorization for local road improvements. Schedule of principal and interest payments is as follows:

Year	Due October 1		Total	Due
	Principal	Interest		April 1 Interest
2004	\$ 55,000	\$ 35,542	\$ 90,542	\$
2005	60,000	34,855	94,855	34,855
2006	75,000	33,955	108,955	33,955
2007	75,000	32,736	107,736	32,736
2008	75,000	31,424	106,424	31,424
2009	80,000	30,018	110,018	30,018
2010	80,000	28,417	108,417	28,417
2011	80,000	26,778	106,778	26,778
2012	90,000	25,077	115,077	25,077
2013	90,000	23,098	113,098	23,098
2014	95,000	21,072	116,072	21,072
2015	100,000	18,888	118,888	18,888
2016	350,000	16,537	366,537	16,537
2017	350,000	8,313	358,313	8,313

\$1,655,000   \$ 366,710   \$2,021,710   \$ 331,168

The bonds bear interest at a rate of 2.00% to 4.75%.

Compensated Absences:

Accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund incurring the liability. Unused vacation leave lapses at the end of an employee's anniversary date. In accordance with provisions of Statement of Financial Accounting Standards No. 43, "Accounting for Compensated Absences," no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.



VILLAGE OF FRANKLIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE G - Long-Term Debt (continued):

Enterprise Fund - Bonds Payable:

Schedule of semi-annual principal and interest payments due for the Evergreen-Farmington Sewage Disposal System Bonds - Permanent Meter and Interceptor Rehabilitation is as follows:

Year	Due April 1,			Due October 1,
	Principal	Interest	Total	Interest
2004	\$	\$	\$	\$ 298
2005	2,455	298	2,753	255
2006	2,376	255	2,631	212
2007	2,297	212	2,509	169
2008	2,653	169	2,822	117
2009	2,970	117	3,087	58
2010	3,316	58	3,374	
	<u>\$ 16,067</u>	<u>\$ 1,109</u>	<u>\$17,176</u>	<u>\$ 1,109</u>

The bonds bear interest at a rate of 3.5% to 3.7%.

On May 26, 1994 bonds in the amount of \$3,850,000 were sold. These bonds are part of the voter approved authorization. As noted below there was a defeasance of \$2,850,000 of this debt during 2003.

On January 29, 2003, the Village issued \$2,950,000 in general obligation bonds with an average interest rate of 3.00% to advance refund \$2,850,000 of the outstanding sewer construction bond detailed above with an average interest rate of 5.66%. The net proceeds of \$2,912,437 (after receipt of \$36,230 in original issue premium and payment of \$73,793 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the sewer construction bond.

On March 1, 2003, the escrow agent paid \$2,907,000 (including a call premium of \$57,000) to retire the outstanding \$2,850,000 sewer construction bond. The remaining \$5,437 held by the escrow agent was transferred to the Debt Service Fund to cover other incidental issuance costs.

The Village advance refunded the sewer construction bond to reduce its total debt service payments over the next 11 years by \$291,290 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$247,965. Schedule of principal and interest payments are as follows:

Year	Due September 1			Due March 1
	Principal	Interest	Total	Interest
2004	\$ 235,000	\$ 41,972	\$ 276,972	\$
2005	255,000	39,622	294,622	39,622
2006	250,000	37,072	287,072	37,072
2007	265,000	34,416	299,416	34,416
2008	260,000	30,937	290,937	30,937
2009	280,000	27,037	307,037	27,037
2010	270,000	22,487	292,487	22,487
2011	290,000	17,762	307,762	17,762
2012	310,000	12,506	322,506	12,506
2013	325,000	6,500	331,500	6,500
	<u>\$2,740,000</u>	<u>\$ 270,311</u>	<u>\$3,010,311</u>	<u>\$ 228,339</u>

The bonds bear interest at a rate of 2.00% to 4.00%.

VILLAGE OF FRANKLIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE G - Long-Term Debt (continued):

Enterprise Fund - Bonds Payable:

On June 6, 1996 bonds in the amount of \$1,400,000 were sold for sewer construction. The proceeds received from the sale of these bonds amounted to \$1,382,500. These bonds are part of the \$6,000,000 voter approved authorization for sewer construction. Schedule of principal and interest payments are as follows:

Year	Due November 1			Due May 1	
	Principal	Interest	Total	Interest	
2004	\$ 65,000	\$ 31,359	\$ 96,359	\$	
2005	70,000	29,734	99,734	29,734	
2006	75,000	27,984	102,984	27,984	
2007	75,000	26,071	101,071	26,071	
2008	75,000	24,121	99,121	24,121	
2009	80,000	22,134	102,134	22,134	
2010	85,000	19,974	104,974	19,974	
2011	90,000	17,636	107,636	17,636	
2012	100,000	15,094	115,094	15,094	
2013	125,000	12,219	137,219	12,219	
2014	150,000	8,625	158,625	8,625	
2015	150,000	4,312	154,312	4,312	
	<u>\$1,140,000</u>	<u>\$ 239,263</u>	<u>\$1,379,263</u>	<u>\$ 207,904</u>	

The bonds bear interest at a rate of 5.0% to 5.75%.

March 2, 1999 bonds in the amount of \$1,500,000 were sold for sewer construction. The proceeds received from the sale of these bonds amounted to \$1,481,250. These bonds are part of the \$6,000,000 voter approved authorization for sewer construction. Schedule of principal and interest payments are as follows:

Year	Due November 1			Due May 1	
	Principal	Interest	Total	Interest	
2004	\$ 50,000	\$ 31,759	\$ 81,759	\$	
2005	50,000	30,734	80,734	30,734	
2006	50,000	29,709	79,709	29,709	
2007	50,000	28,684	78,684	28,684	
2008	60,000	27,659	87,659	27,659	
2009	60,000	26,429	86,429	26,429	
2010	85,000	25,199	110,199	25,199	
2011	95,000	23,435	118,435	23,435	
2012	100,000	21,440	121,440	21,440	
2013	100,000	19,340	119,340	19,340	
2014	120,000	17,190	137,190	17,190	
2015	130,000	14,550	144,550	14,550	
2016	250,000	11,625	261,625	11,625	
2017	250,000	5,875	255,875	5,875	
	<u>\$1,450,000</u>	<u>\$ 313,628</u>	<u>\$1,763,628</u>	<u>\$ 281,869</u>	

The bonds bear interest at a rate of 4.1% to 4.7%.

VILLAGE OF FRANKLIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE G - Long-Term Debt (continued):

Annual Debt Requirement:

The annual requirements to amortize all debt outstanding, excluding compensated absences, as of June 30, 2004 as follows:

Fiscal Year	General Long-Term Debt		Enterprise Fund	
	Principal	Interest	Principal	Interest
2005	\$ 205,000	\$ 255,874	\$ 352,455	\$ 205,776
2006	240,000	246,822	377,376	195,365
2007	270,000	236,139	377,297	184,360
2008	300,000	223,803	392,653	172,226
2009	325,000	209,852	397,970	158,551
2010	360,000	194,337	423,316	143,376
2011	400,000	176,966	440,000	126,493
2012	440,000	157,645	475,000	107,873
2013	485,000	136,051	510,000	87,099
2014	530,000	112,056	550,000	63,874
2015	580,000	85,653	270,000	44,677
2016	440,000	61,587	280,000	30,487
2017	420,000	41,165	250,000	17,500
2018	425,000	20,513	250,000	5,875
2019	85,000	7,618		
2020	90,000	2,587		
	<u>\$5,595,000</u>	<u>\$2,168,668</u>	<u>\$5,346,067</u>	<u>\$1,543,532</u>

NOTE H - Restricted Assets

The balance of the restricted asset account is as follows:

General Fund:	
Police equipment	<u>\$43,741</u>

NOTE I - Retirement Plans

Defined Contribution Plan:

The Village provides pension benefits to its administrator through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by negotiation with the Village Administrator, the Village contributes 8% of employee's gross earnings and employee contributes 10% of earnings.

In accordance with these requirements, the Village contributed \$5,824 during the current year and the employee contributed \$7,280.

Deferred Compensation Plan:

The Village offers all Village employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof of the exclusive benefit of the participants holds the custodial account for the beneficiaries of the Section 457 plan, and the assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balance and activities are not reflected in the Village's financial statements.

VILLAGE OF FRANKLIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

**NOTE 1 - Retirement Plans (continued):**

Employee Retirement and Benefit Systems:

The Village is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance; disability retirement allowance, non-duty-connected death and post-retirement adjustments to plan members and their beneficiaries. All Village full-time employees are eligible to participate in the system. Employees who retire after age 60 with 10 years of credited service or after age 50 with 25 years of credited service are entitled to a retirement benefit, payable for life, equal to 2.50% of their 5-year final average compensation (FAC), with a maximum benefit of 80% of FAC. Vested employees may retire before age 60 and receive reduced retirement benefits. The system also provides disability benefits to a member who becomes totally and permanently disabled while employed by the Village and after acquiring 10 or more years of credited service. The service requirement is waived if the disability is from service connected causes. If a member or vested former member with 10 or more years of service dies in a non-duty related death before retirement, a monthly survivor allowance may be payable. The service is waived in a duty related death. The most recent period for which actuarial data was available for the fiscal year ended December 31, 2003.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1951 (MSA 5.333(A); mcla 46.12(a)), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Village employees and requires a contribution from employees of 2 percent of gross wages. The Village is required to contribute at an actuarially determined rate; the current rate is 0.00% of annual covered payroll for general employees and 12.77% for police employees.

During the fiscal year ended June 30, 2004, the Village's annual pension cost of \$47,077 was equal to the Village's required and actual contributions determined by an actuarial valuation of the plan as of December 31, 2001. The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total actuarially determined contribution requirement is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years, less the accelerated funding credit.

The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information for GASB Statement No. 27:

<u>Fiscal Period Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2002	\$ 14,500	100%	0
June 30, 2003	30,933	100%	0
June 30, 2004	47,077	100%	0

Required Supplementary Information for GASB Statement No. 27:

<u>Actuarial Valuation Date December 31,</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Underfunded (Overfunded) AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as A Percentage of Covered Payroll (b-a)/(c)</u>
2001	\$ 1,613,667	\$ 1,828,374	\$ 214,707	88.3%	\$682,400	31.5%
2002	1,701,187	2,029,277	328,090	83.8%	756,417	43.4%
2003	1,888,046	2,412,919	524,873	78.2%	824,312	63.7%

VILLAGE OF FRANKLIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE J - Post Retirement Health Care:

The Village provides hospitalization insurance coverage for employees (and their spouses) who retire under the Michigan Fraternal Order of Police union contract.

The coverage will be the same coverage the employee has at the time of retirement with the premium to be paid one hundred percent (100%) by the Village. Should the employee accept coverage from another source, the coverage will cease. However, if the alternate source ceases, the retiree will be reinstated under the Village coverage which will be paid for at the above rate.

Should the employee predecease his/her spouse, the surviving spouse will continue to receive the same benefits. This benefit will cease in the event that he/she remarries, gains employment with coverage or receives coverage from any other source.

All retirees and their spouses must make application for, and enroll in, Medicare coverage. The Village-paid health insurance will remain in effect until each of the retirees and/or their spouses reach the eligibility age of Medicare. The Village's obligation for health care coverage for the retiree and his/her spouse ends when the retiree and his/her spouse are eligible for Medicare.

The Village's cost of retiree health care benefits is recognized as an expense in the year hospitalization insurance coverage applies. No retiree health care costs were incurred by the Village for the year ended June 30, 2004.

NOTE K - Lease Obligations:

The Village is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Village's account groups.

The following is a schedule of years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2004:

Year ending June 30,	Amounts
2005	\$ 6,956
2006	3,684
2007	2,763
	<u>\$13,403</u>

The total rental expenditures for all operating leases for the year ended June 30, 2004 amounted to \$8,729.

NOTE L - Risk Management:

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for health, dental and life claims. The City participates in the Michigan Municipal Risk Management Authority state pool for claims relating to property loss, torts, errors and omissions and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority state pool program operates as a common risk-sharing management program; state pool member premiums are aggregated and used to purchase excess insurance coverage, some of which is underwritten by the Authority.

VILLAGE OF FRANKLIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE M - Reserved Fund Balances:

Fund balances have been reserved for the following purposes:

	<u>General Fund</u>
Police equipment	\$ 43,741
Prepaid expenses	<u>9,257</u>
	<u>\$ 52,998</u>

REQUIRED SUPPLEMENTAL INFORMATION

## VILLAGE OF FRANKLIN, MICHIGAN

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

For the Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Revenues:</b>				
Tax collections:				
Current levy - general . . . . .	\$ 695,417	\$ 692,184	\$ 692,192	\$ 8
Property tax administration fee. . . . .	23,375	21,757	22,122	365
Interest and penalty on delinquent taxes . . . . .	7,237	4,513	4,509	(4)
	<u>\$ 726,029</u>	<u>\$ 718,454</u>	<u>\$ 718,823</u>	<u>\$ 369</u>
Licenses and permits:				
Business licenses and permits. . . . .	\$ 750	\$ 750	\$ 750	\$
Cable T.V. revenues. . . . .	30,000	50,000	49,825	(175)
Cellular franchise fees. . . . .	24,000			
	<u>\$ 54,750</u>	<u>\$ 50,750</u>	<u>\$ 50,575</u>	<u>\$ (175)</u>
Federal sources:				
Community Development Block Grant. . . . .	9,000	9,000	4,226	(4,774)
Police grants. . . . .		2,400	4,906	2,506
	<u>\$ 9,000</u>	<u>\$ 11,400</u>	<u>\$ 9,132</u>	<u>\$ (2,268)</u>
State sources:				
Sales tax. . . . .	237,000	218,000	221,284	3,284
Criminal justice training. . . . .	1,200	1,200	2,212	1,012
	<u>\$ 238,200</u>	<u>\$ 219,200</u>	<u>\$ 223,496</u>	<u>\$ 4,296</u>
Charges for services:				
Police protection services . . . . .	533,230	533,230	537,843	4,613
General and administrative assessment. . . . .	26,650	58,550	64,300	5,750
	<u>\$ 559,880</u>	<u>\$ 591,780</u>	<u>\$ 602,143</u>	<u>\$ 10,363</u>
Police fines and forfeitures . . . . .	21,700	11,700	11,234	(466)
Interest on investments. . . . .	19,000	7,500	5,752	(1,748)
Other revenue:				
Reimbursements . . . . .	2,000	7,650	2,650	(5,000)
Sales of fixed assets. . . . .	12,000	3,100	3,054	(46)
Donations. . . . .	100	500	526	26
Miscellaneous. . . . .	16,200	2,200	6,819	4,619
	<u>\$ 30,300</u>	<u>\$ 13,450</u>	<u>\$ 13,049</u>	<u>\$ (401)</u>
Total revenues . . . . .	\$ 1,658,859	\$ 1,624,234	\$ 1,634,204	\$ 9,970
<b>Expenditures:</b>				
General Government:				
Village Council:				
Village Council fees . . . . .	175	175	175	
Contracted services . . . . .	1,200	1,200		1,200
Cablecast Board. . . . .	20,000	30,000	30,801	(801)
Dues and meetings. . . . .	4,000	2,000	2,023	(23)
Historic Study Committee . . . . .	800	13,000	12,915	85
Public information . . . . .	2,500	3,500	3,481	19
Miscellaneous. . . . .	500	1,100	1,047	53
Water. . . . .	2,500	11,000	11,077	(77)
Wireless communications. . . . .		9,000	9,509	(509)
	<u>\$ 31,675</u>	<u>\$ 70,975</u>	<u>\$ 71,027</u>	<u>\$ (52)</u>



## VILLAGE OF FRANKLIN, MICHIGAN

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND (CONTINUED)

For the Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Administrator:				
Salaries . . . . .	148,800	156,800	155,461	1,339
Group insurance . . . . .	31,000	32,500	32,468	32
Life and disability insurance . . . . .	3,000	5,000	2,063	2,937
Workers compensation insurance . . . . .	1,200	1,200	648	552
Retirement contributions . . . . .	11,680	6,000	5,923	77
Payroll taxes . . . . .	12,100	12,100	12,130	(30)
Office supplies . . . . .	1,000	4,000	4,155	(155)
Computer software and supplies . . . . .			26	(26)
Accounting and auditing . . . . .	1,200	600	715	(115)
Dues and meetings . . . . .	720	720	786	(66)
Telephone and communications . . . . .	200	200	135	65
Auto expense . . . . .		1,500	1,435	65
	\$ 210,900	\$ 220,620	\$ 215,945	\$ 4,675
Elections . . . . .	5,000	2,000	1,891	109
Legal and related services . . . . .	50,000	40,000	42,881	(2,881)
Village Clerk:				
Salaries . . . . .	38,110	35,000	33,428	1,572
Contracted services . . . . .	12,500	8,000	7,558	442
Group insurance . . . . .	2,400	500	419	81
Life and disability insurance . . . . .	150	300	283	17
Workers compensation insurance . . . . .	550	550	284	266
Retirement contributions . . . . .	1,030			
Payroll taxes . . . . .	3,000	3,000	2,642	358
Office supplies . . . . .	1,500	3,500	3,639	(139)
Computer software and supplies . . . . .	500	500	242	258
Training . . . . .	250	250		250
Accounting and auditing . . . . .	1,300	1,100	429	671
Dues and subscriptions . . . . .	150	150	193	(43)
Tax collection expense . . . . .	1,300	4,500	2,578	1,922
Insurance and bonds . . . . .	50	50		50
	\$ 62,790	\$ 57,400	\$ 51,694	\$ 5,706
Village Hall:				
Contracted services . . . . .	20,000	21,000	21,048	(48)
Telephone and communications . . . . .	10,000	9,000	9,447	(447)
Utilities . . . . .	3,750	4,750	4,298	452
Repairs and maintenance . . . . .	8,000	6,000	5,146	854
	\$ 41,750	\$ 40,750	\$ 39,938	\$ 812
Other general services administration activities:				
Insurance and bonds . . . . .	37,500	36,000	36,185	(185)
Community Development Block Grant . . . . .	9,000	9,000	1,881	7,119
Refunds and rebates . . . . .			2,601	(2,601)
Bad debts . . . . .			100	(100)
Miscellaneous . . . . .	2,500	3,100	3,071	29
	\$ 49,000	\$ 48,100	\$ 43,838	\$ 4,262
Total general government . . . . .	\$ 451,115	\$ 479,845	\$ 467,215	\$ 12,630

## VILLAGE OF FRANKLIN, MICHIGAN

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND (CONTINUED)

For the Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Public safety:				
Police department:				
Police salaries . . . . .	669,685	677,185	668,813	8,372
Clerical salaries . . . . .	25,700	25,700	25,714	(14)
Group insurance . . . . .	115,000	120,000	120,168	(168)
Life and disability insurance . . . . .	13,000	9,000	11,450	(2,450)
Workers compensation insurance . . . . .	10,400	14,400	6,888	7,512
Retirement contributions . . . . .	48,725	48,725	47,077	1,648
Payroll taxes . . . . .	54,150	54,150	54,202	(52)
Contracted services . . . . .	3,500	3,500	3,839	(339)
Office and police supplies . . . . .	6,000	7,500	6,032	1,468
Computer software and supplies . . . . .	250	250		250
Dues and meetings . . . . .	1,500	500	245	255
Training expense . . . . .	2,000	2,000	1,730	270
Pistol range expense . . . . .	1,000	2,000	1,590	410
Uniform expense . . . . .	6,000	6,000	8,280	(2,280)
Accounting and auditing . . . . .	10,500	10,500	8,154	2,346
Legal and related . . . . .	3,500	3,500	3,602	(102)
Communication expense . . . . .	15,000	16,000	17,127	(1,127)
Central dispatch . . . . .	38,110	40,746	37,389	3,357
Insurance and bonds . . . . .	10,000	10,000	8,469	1,531
Police car expense . . . . .	47,100	52,000	54,803	(2,803)
Utilities . . . . .	8,500	9,500	8,872	628
Repairs and maintenance . . . . .	6,620	10,120	13,158	(3,038)
Drug forfeiture expense . . . . .	500	500		500
Total public safety . . . . .	\$ 1,096,740	\$ 1,123,776	\$ 1,107,604	\$ 16,172
Community and economic development:				
Planning commission:				
Planning . . . . .	39,100	22,000	23,640	(1,640)
Zoning board of appeals . . . . .	800	800	602	198
General engineering . . . . .	3,500	6,500	7,688	(1,188)
Total community and economic development . . . . .	\$ 43,400	\$ 29,300	\$ 31,930	\$ (2,630)
Capital outlay:				
Police department . . . . .	25,500	25,500	23,866	1,634
Village hall . . . . .	15,000			
Other general services administration activities . . . . .		6,600	6,621	(21)
Total capital outlay . . . . .	\$ 40,500	\$ 32,100	\$ 30,487	\$ 1,613
Total expenditures . . . . .	\$ 1,631,755	\$ 1,665,021	\$ 1,637,236	\$ 27,785
Excess of revenues over (under) expenditures . . . . .	\$ 27,104	\$ (40,787)	\$ (3,032)	\$ 37,755
Fund balance - July 1, 2003 . . . . .	587,010	587,010	587,010	
Fund balance - June 30, 2004 . . . . .	\$ 614,114	\$ 546,223	\$ 583,978	\$ 37,755

VILLAGE OF FRANKLIN, MICHIGAN

BUDGETARY COMPARISON SCHEDULE  
MAJOR STREET FUND

For the Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues:				
State shared revenues . . . . .	\$ 128,204	\$ 148,204	\$ 135,264	\$ (12,940)
Interest . . . . .	10,500	5,000	4,359	(641)
Reimbursements . . . . .	600	4,600	2,344	(2,256)
Total revenues . . . . .	\$ 139,304	\$ 157,804	\$ 141,968	\$ (15,836)
Expenditures:				
Road and drain improvements . . . . .		1,200	1,200	
Road maintenance and supplies . . . . .	56,500	89,000	86,705	2,295
Accounting and auditing . . . . .	1,600	1,600	1,001	599
Administration . . . . .	2,000	5,000	5,004	(4)
Total expenditures . . . . .	\$ 60,100	\$ 96,800	\$ 93,910	\$ 2,890
Excess of revenues over (under) expenditures . . . . .	\$ 79,204	\$ 61,004	\$ 48,058	\$ (12,946)
Other financing sources (uses):				
Transfer to Local Street Fund . . . . .		(90,000)	(83,816)	6,184
Total excess of revenues over (under) expenditures and other financing uses . . . . .	\$ 79,204	\$ (28,996)	\$ (35,758)	\$ (6,762)
Fund balance - July 1, 2003 . . . . .	383,162	383,162	383,162	
Fund balance - June 30, 2004 . . . . .	\$ 462,366	\$ 354,166	\$ 347,404	\$ (6,762)

## VILLAGE OF FRANKLIN, MICHIGAN

BUDGETARY COMPARISON SCHEDULE  
LOCAL STREET FUND

For the Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues:				
State sources:				
State shared revenues . . . . .	\$ 85,148	\$ 99,148	\$ 89,965	\$ (9,183)
Metro Authority . . . . .	50,000	9,700	9,738	38
	<u>\$ 135,148</u>	<u>\$ 108,848</u>	<u>\$ 99,703</u>	<u>\$ (9,145)</u>
Interest . . . . .		1,300	1,400	100
Total revenues . . . . .	<u>\$ 135,148</u>	<u>\$ 110,148</u>	<u>\$ 101,103</u>	<u>\$ (9,045)</u>
Expenditures:				
Road and drain improvements . . . . .	84,500	90,500	80,208	10,292
Road maintenance and supplies . . . . .		51,000	45,039	5,961
Accounting and auditing . . . . .	1,500	1,500	1,001	499
Administration . . . . .	1,000	1,000	1,004	(4)
Total expenditures . . . . .	<u>\$ 87,000</u>	<u>\$ 144,000</u>	<u>\$ 127,253</u>	<u>\$ 16,747</u>
Excess of revenues over (under) expenditures . . . . .	<u>\$ 48,148</u>	<u>\$ (33,852)</u>	<u>\$ (26,149)</u>	<u>\$ 7,703</u>
Other financing sources:				
Transfer from Major Street Fund . . . . .		90,000	83,816	(6,184)
Transfer from Municipal Street Fund . . . . .	1,000			
Total other financing sources . . . . .	<u>\$ 1,000</u>	<u>\$ 90,000</u>	<u>\$ 83,816</u>	<u>\$ (6,184)</u>
Total excess of revenues over expenditures and other financing sources . . . . .	<u>\$ 49,148</u>	<u>\$ 56,148</u>	<u>\$ 57,667</u>	<u>\$ 1,519</u>
Fund balance - July 1, 2003 . . . . .	247,827	247,827	247,827	
Fund balance - June 30, 2004 . . . . .	<u>\$ 296,975</u>	<u>\$ 303,975</u>	<u>\$ 305,494</u>	<u>\$ 1,519</u>

## VILLAGE OF FRANKLIN, MICHIGAN

BUDGETARY COMPARISON SCHEDULE  
BUILDING DEPARTMENT FUND

For the Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues:				
Licenses and permits. . . . .	\$ 273,300	\$ 366,230	\$ 386,801	\$ 20,571
Miscellaneous . . . . .			27	27
Total revenues. . . . .	\$ 273,300	\$ 366,230	\$ 386,828	\$ 20,598
Expenditures:				
Salaries. . . . .	36,663	38,363	36,962	1,401
Group insurance . . . . .	12,123	13,823	13,781	42
Life and disability insurance . . . . .	517	517	534	(17)
Workers compensation insurance. . . . .	276	4,550	2,030	2,520
Retirement contributions. . . . .	2,097			
Payroll taxes . . . . .	2,865	2,865	2,890	(25)
Administrative services . . . . .	14,400	43,300	43,300	
Overhead. . . . .	12,000	15,000	15,000	
Supplies. . . . .	2,879	4,400	3,706	694
Computer software and supplies. . . . .	35	300	200	100
Dues and meetings . . . . .	150	500	245	255
Accounting and auditing . . . . .	800	800	429	371
Legal and related . . . . .	5,089	6,192	6,930	(738)
Building inspection fees. . . . .	164,799	226,322	223,687	2,635
Telephone and communications. . . . .			190	(190)
Training expense. . . . .	2,500	200	30	170
Insurance and bonds . . . . .	15,051	15,051	14,885	166
Repairs and maintenance . . . . .			583	(583)
Refunds . . . . .		15,500	15,430	70
Miscellaneous . . . . .	(18,256)	50	327	(277)
Total expenditures. . . . .	\$ 253,988	\$ 387,733	\$ 381,138	\$ 6,595
Excess of revenues over (under) expenditures. . . . .	\$ 19,312	\$ (21,503)	\$ 5,690	\$ 27,193
Fund balance - July 1, 2003 . . . . .	62,494	62,494	62,494	
Fund balance - June 30, 2004. . . . .	\$ 81,806	\$ 40,991	\$ 68,184	\$ 27,193

OTHER SUPPLEMENTAL INFORMATION

VILLAGE OF FRANKLIN, MICHIGAN

COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2004

	Special Revenue Funds	Total Non-Major Governmental Funds
ASSETS		
Cash . . . . .	\$ 82,693	\$ 82,693
Due from other funds . . . . .	1,723	1,723
Accounts receivable - other . . . . .	260	260
Total assets . . . . .	<u>\$ 84,676</u>	<u>\$ 84,676</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable . . . . .	\$ 25,855	\$ 25,855
Due to other governments . . . . .	1,723	1,723
Total liabilities . . . . .	\$ 27,578	\$ 27,578
Fund balance - unreserved . . . . .	57,098	57,098
Total liabilities and fund balance . . . . .	<u>\$ 84,676</u>	<u>\$ 84,676</u>

## VILLAGE OF FRANKLIN, MICHIGAN

COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS

June 30, 2004

	Garbage and Rubbish Collection	Fire	Library	Waste Water Management	Total
<b>ASSETS</b>					
Cash . . . . .	\$ 40,614	\$	\$	\$ 42,079	\$ 82,693
Due from other funds . . . . .		1,138	585		1,723
Accounts receivable - other . . . . .				260	260
Total assets . . . . .	<u>\$ 40,614</u>	<u>\$ 1,138</u>	<u>\$ 585</u>	<u>\$ 42,339</u>	<u>\$ 84,676</u>
<b>LIABILITIES AND FUND BALANCE</b>					
Liabilities:					
Accounts payable . . . . .	\$ 25,855	\$	\$	\$	\$ 25,855
Due to other governments . . . . .		1,138	585		1,723
Total liabilities . . . . .	<u>\$ 25,855</u>	<u>\$ 1,138</u>	<u>\$ 585</u>	<u>\$</u>	<u>\$ 27,578</u>
Fund balance - unreserved . . . . .	<u>14,758</u>			<u>42,339</u>	<u>57,098</u>
Total liabilities and fund balance . . . . .	<u>\$ 40,614</u>	<u>\$ 1,138</u>	<u>\$ 585</u>	<u>\$ 42,339</u>	<u>\$ 84,676</u>



VILLAGE OF FRANKLIN, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2004

	Special Revenue Funds	Total Non-Major Governmental Funds
Revenues:		
Taxes . . . . .	\$ 529,672	\$ 529,672
Local source . . . . .	15,371	15,371
Interest earnings . . . . .	1,769	1,769
Other revenue . . . . .	30	30
Total revenues . . . . .	\$ 546,842	\$ 546,842
Expenditures:		
Public safety . . . . .	232,153	232,153
Public works:		
Sanitation . . . . .	172,063	172,063
Septic inspection . . . . .	18,370	18,370
Culture and recreation . . . . .	121,869	121,869
Total expenditures . . . . .	\$ 544,455	\$ 544,455
Excess of revenues over expenditures . . . . .	\$ 2,388	\$ 2,388
Fund balance - July 1, 2003 . . . . .	54,710	54,710
Fund balance - June 30, 2004 . . . . .	\$ 57,098	\$ 57,098

VILLAGE OF FRANKLIN, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2004

	Garbage and Rubbish Collection	Fire	Library	Waste Water Management	Total
Revenues:					
Taxes . . . . .	\$ 177,157	\$ 230,941	\$ 121,574	\$	\$ 529,672
Local source . . . . .				15,371	15,371
Interest earnings . . . . .	793	560	295	121	1,769
Other revenue . . . . .	30				30
Total revenues . . . . .	\$ 177,980	\$ 231,502	\$ 121,869	\$ 15,492	\$ 546,842
Expenditures:					
Public safety . . . . .		232,153			232,153
Public works:					
Sanitation . . . . .	172,063				172,063
Septic inspection . . . . .				18,370	18,370
Culture and recreation . . . . .			121,869		121,869
Total expenditures . . . . .	\$ 172,063	\$ 232,153	\$ 121,869	\$ 18,370	\$ 544,455
Excess of revenues over (under) expenditures	\$ 5,917	\$ (651)	\$ -	\$ (2,878)	\$ 2,388
Fund balance - July 1, 2003 . . . . .	8,842	651		45,217	54,710
Fund balance - June 30, 2004 . . . . .	\$ 14,758	\$ -	\$ -	\$ 42,339	\$ 57,098

# JANZ & KNIGHT, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

300 EAST LONG LAKE ROAD, SUITE 360  
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**50**  
YEARS  
1954-2004

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AMERICAN INSTITUTE OF  
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MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

December 22, 2004

To the Village Council and Management of  
the Village of Franklin, Michigan

In planning and performing our audit of the general purpose financial statements of the Village of Franklin, Michigan for the year ended June 30, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Village of Franklin, Michigan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

## REPORTABLE CONDITION:

State statute requires that the budget be amended before expenditures exceed the budgeted amounts. It was noted during the audit that the budget was amended during the year to comply with the state statute. Despite these amendments the Village had several budget variances at year end. None of these variances are considered significant. We recommend that the Village continue to review expenditure and budget amounts and amend the budget prior to incurring a budget overrun.

## OTHER COMMENTS AND RECOMMENDATIONS:

We also noted other conditions, not reportable conditions as defined above, upon which we offer our comments and recommendations.

During our prior audit we commented on the Village's need to better monitor old outstanding items. During this year's audit we noted improvement in this area. We recommend that the Village continue to focus on this area.

We would like to thank the Council for the opportunity to serve as auditors for the Village, and express our appreciation for the courtesy and cooperation extended to our staff during the course of our audit.

This report is intended solely for the information and use of the Village Council, management, and others within the Village administration. However, this report is a matter of public record, and its distribution is not limited.

Very truly yours,

*Janz & Knight P.L.C.*

Certified Public Accountants

J&K/srz